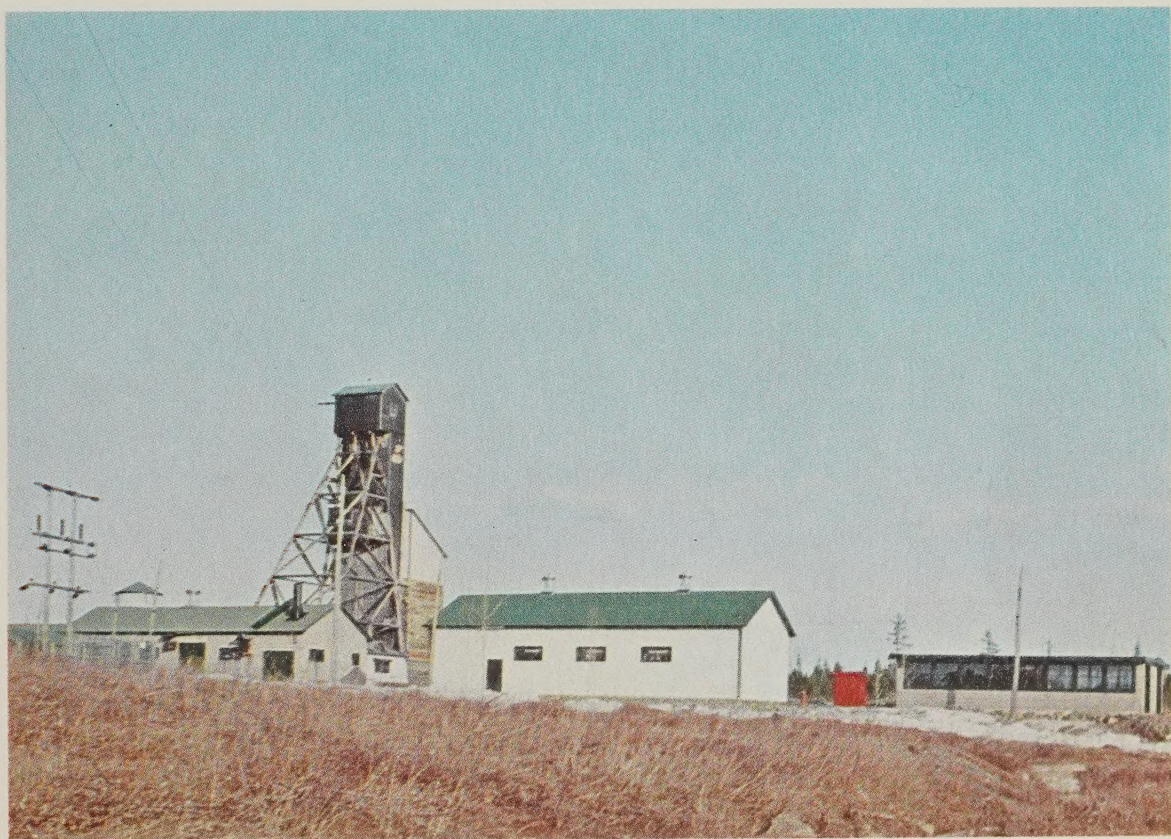


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KEY ANACON MINES

L I M I T E D

ANNUAL
1964
REPORT



FOR THE YEAR ENDED DECEMBER 31.



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KEY ANACON MINES LIMITED

BOARD OF DIRECTORS

M. J. BOYLEN, D.C.L., D.Sc. _____ Toronto, Ontario
ROBERT J. ISAACS, B.A.Sc., P.Eng. _____ Toronto, Ontario
D. W. GORDON, F.C.I.S. _____ Toronto, Ontario
FRED JUSTER _____ Montreal, Quebec
GORDON L. MOORE _____ Toronto, Ontario
WILLIAM C. DURHAM _____ Toronto, Ontario
PHILIP E. BOYLEN _____ Toronto, Ontario

OFFICERS

M. J. BOYLEN, D.C.L., D.Sc. _____ President and Managing Director
D. W. GORDON, F.C.I.S. _____ Vice-President
GORDON L. MOORE _____ Secretary-Treasurer
CHARLES B. BRANNIGAN _____ Assistant Secretary

REGISTRARS AND TRANSFER AGENTS

GUARANTY TRUST COMPANY OF CANADA _____ Toronto, Montreal, and Vancouver
EMPIRE TRUST COMPANY _____ New York City, New York

AUDITORS

THORNE, MULHOLLAND, HOWSON & McPHERSON
Suite 902, 111 Richmond St. W., Toronto, Ontario

HEAD OFFICE

SUITE 908, 330 BAY STREET _____ Toronto, Ontario

KEY ANACON MINES LIMITED

Suite 908, 330 Bay Street
TORONTO, ONTARIO

Summary for Annual Report

TO THE SHAREHOLDERS:

On behalf of the Board of Directors, I take pleasure in presenting herewith the Annual Report of your Company for the year ended December 31, 1964, containing Balance Sheet and supporting statements.

By Supplementary Letters Patent dated February 11, 1964 the name of the Company was changed from "Anacon Lead Mines Limited" to "Key Anacon Mines Limited". The shares of "Anacon" became exchangeable for shares of "Key Anacon" on the basis of one share of "Key Anacon" for every three shares of "Anacon" held. Subsequently, a Rights Offering was made to shareholders resulting in the sale of 2,311,627 shares at 60 cents per share, netting the treasury \$1,386,976.20.

Your Company exercised the Rights Offering made by Brunswick Mining and Smelting Corporation Limited and purchased 131,700 shares of that Company at \$4.00 per share. Your Company now owns a total of 921,700 shares of Brunswick Mining and Smelting Corporation Limited.

Early in the year 1964, it was decided to bring the Company's mining property near Bathurst, New Brunswick to production; and to provide adequate funds, your Company entered into an agreement enabling it to sell up to \$900,000. of 6% Convertible Debentures. Such Debentures as may be sold are convertible at the option of the holder on the basis of one share of Key Anacon Mines Limited for each \$1.00 of Debenture Principal held, under conditions contained in the agreement.

TWO MINING LICENSES — GLOUCESTER COUNTY, NEW BRUNSWICK

During May, 1964, work was started on the rehabilitation of surface buildings and equipment, renovation of shaft, headframe and underground workings. Rehabilitation was completed in September, and the renovation program completed in October, enabling the development program to get under way in November. As at the end of February, 1965, ore reserves in the No. 2 Ore Zone were calculated to be 1,463,000 tons grading 2.94% lead, 7.81% zinc, .20% copper and 3.28 ozs. silver. Work is proceeding favourably and diamond drilling results are encouraging.

In addition, underground exploration of the No. 1 and No. 3 Zones is proposed just as soon as the delimitation of the No. 2 ore body has been completed. These two zones, which lie 800 and 700 feet south and north of the shaft, respectively, are indicated to contain some 575,000 tons of lower grade ore based on a limited amount of surface drilling. It is believed that detailed underground development of these bodies will increase both their grade and tonnage.

There has been a strong suggestion in some of the recent underground drill holes that the copper zone indicated on the upper levels of the mine continues to, and below the 1,000-foot level. As our sectional drilling program is continued from level to level it is expected that it will yield a good definition of what is probably a separate, mineable unit.

The addition of such substantial tonnages which are still open for further enlargement has raised the question of a concentrator for the mine. To this end, the Galigher Company of Salt Lake City, Utah, research metallurgists, have been engaged to carry out concentration tests on ore from the No. 2 Zone. This work, now in progress, has yielded definite encouragement in the preliminary stages.

LAC ROMANET CLAIMS, QUEBEC

Although no work was carried out on the Company's copper prospect in the Lac Romanet area of New Quebec during 1964, all 16 claims were retained in good standing. We are given to understand that Holannah Mines propose more diamond drilling for their contiguous claim group this year; results of this work will be watched with interest as the two properties show a common mineralized structure.

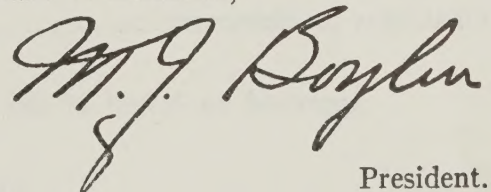
DISTRICT OF ALGOMA, ONTARIO

Reconnaissance work was carried out on the 34 claims adjoining Tribag Mines north of Sault Ste. Marie, Ontario and has resulted in a recommendation that a geochemical soil sampling program be carried out during the summer of 1965. An extension of time has been granted by the Ontario Department of Mines that will permit this work to be done.

CHIBOUGAMAU OPERATION, QUEBEC

The gold-copper mine in Robault and La Dauversiere Townships of the Chibougamau district of Quebec remained idle during 1964 pending an increase in the price of gold. All claims are being maintained in good standing.

Submitted on behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "M.J. Boylan". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

President.

Dated at Toronto, Ontario,
this 21st day of May, 1965.

KEY ANACON

(formerly Anacon
Incorporated under

Balance Sheet Dec

ASSETS

CURRENT ASSETS:

Bank deposit receipts and accrued interest	176,227.40	
Accounts receivable	964.83	
Prepaid expenses	4,555.19	181,747.42

OTHER ASSETS:

Investments (Schedule A)	3,345,820.34	
Stores and supplies, at cost	24,004.11	3,369,824.45

MINING PROPERTIES, LAND, BUILDINGS, PLANT AND EQUIPMENT, DEFERRED DEVELOPMENT AND ADMINISTRATIVE EXPENSES (Schedule B):

Mining properties	225,154.95	
Land, buildings, plant and equipment	489,455.62	
Deferred development and administrative expenses	4,099,415.81	4,814,026.38

ORGANIZATION EXPENSE		3,895.50
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Approved on behalf of the Board:

M. J. BOYLEN, Director.

G. L. MOORE, Director.

\$ 8,369,493.75

The schedules and notes attached hereto

AUDITORS

To the Shareholders of
KEY ANACON MINES LIMITED:

We have examined the balance sheet of Key Anacon Mines Limited (formerly Anacon Lead Mines Limited) as at December 31, 1964 and the statements of retained earnings and deferred development and administrative expenses for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Toronto, Canada,
March 19, 1965.

MINES LIMITED

(Lead Mines Limited)

the laws of Ontario

December 31st, 1964

LIABILITIES

CURRENT LIABILITIES:

Bank advances, secured	25,269.67	
Accounts payable and accrued liabilities	67,710.71	92,980.38
		<hr/>
BANK LOAN, SECURED		3,375,000.00
6% CONVERTIBLE DEBENTURES (note 3)		400,000.00
		<hr/>
		3,867,980.38

SHAREHOLDERS' EQUITY

CAPITAL STOCK (notes 1, 2 and 3):

Authorized, 6,000,000 shares of the par value of 20 cents each		
Issued, 4,623,254 shares	924,650.80	
CONTRIBUTED SURPLUS	2,109,301.60	
RETAINED EARNINGS	1,467,560.97	4,501,513.37
		<hr/>

\$ 8,369,493.75

are an integral part of this statement.

REPORT

In our opinion the accompanying balance sheet, supplemented by the schedules and notes thereto, and related statements of contributed surplus, retained earnings and deferred development and administrative expenses present fairly the financial position of the company as at December 31, 1964 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE, MULHOLLAND, HOWSON & McPHERSON,

Chartered Accountants.

KEY ANACON MINES LIMITED

NOTES TO FINANCIAL STATEMENT

Year ended December 31, 1964

1. SUPPLEMENTARY LETTERS PATENT:

By Supplementary Letters Patent dated February 11, 1964 the company:

- (a) changed its name to Key Anacon Mines Limited
- (b) decreased authorized capital by cancelling pro rata 4,623,254 issued shares with a par value of 20¢ per share (being 2 of every 3 issued shares)
- (c) increased authorized capital by creation of 2,623,254 additional shares with a par value of 20¢ per share each, ranking on a parity with the shares previously authorized.

2. CAPITAL STOCK:

The changes in issued capital stock during the year are as follows:

	No. of shares	Par value
Issued at beginning of year	6,934,881	1,386,976.20
Less Cancellation as described in note 1(b) (transferred to contributed surplus) ---	4,623,254	924,650.80
	2,311,627	462,325.40
Add Shares issued during year for \$1,386,976.20 cash, of which the premium of \$924,650.80 has been added to contributed surplus	2,311,627	462,325.40
ISSUED AT END OF YEAR	4,623,254	\$ 924,650.80

3. 6% CONVERTIBLE DEBENTURES:

During the year the company entered into a purchase and sale agreement whereby the company:

- (a) sold \$400,000 of 6% convertible debentures for cash.
- (b) obtained the right to require the purchase of an additional \$500,000.00 of these debentures on or before June 1, 1965.

The conditions attaching to these debentures are as follows:

- (a) the principal amount is repayable in equal annual instalments of \$180,000.00 on the 15th day of October, 1966 to 1970 inclusive.
- (b) The debentures are convertible at the option of the holder, at any time up to the close of business on the day immediately preceding any annual principal repayment date, into one share of capital stock of the company for each one dollar of debenture principal.

KEY ANACON MINES LIMITED

SCHEDULE A

INVESTMENTS December 31, 1964

	No. of shares	
Brunswick Mining and Smelting Corporation Limited (note 1)	921,700	3,180,705.54
Hewbet Mines Limited	400,000	130,000.00*
Bachelor Lake Gold Mines Limited (note 2)	125,000	9,375.00*
Bocabois Gold Mines Limited (note 2)	164,000	5,740.00*
Nigadoo River Mines Limited (note 3)	4,444	19,999.80*
		<u>\$ 3,345,820.34</u>

* Figures represent cost.

NOTE 1:

In 1953 the company received 772,400 shares of Brunswick Mining and Smelting Corporation Limited as consideration for interest in mining claims. These shares were valued by the company at that time at \$20.00 per share. In 1960, by resolution of the Board, these shares were reduced to \$3.00 per share, being the approximate quoted market value as at December 31, 1960. Other shares are valued at cost.

NOTE 2:

Acquired from New Larder "U" Island Mines Limited 1955 under the terms of the plan of re-organization dated December 17, 1954.

NOTE 3:

Acquired from Nigadoo Mines Limited (now Nigadoo River Mines Limited) in 1957 as part consideration for the sale of the assets of the Keymet operation.

NOTE 4:

The quoted market value of investments is \$13,841,500.00 in the aggregate but, because of the large blocks of shares involved, quoted market value is not necessarily indicative of the amount that might be realized if these investments were to be sold.

KEY ANACON MINES LIMITED

SCHEDULE B

MINING PROPERTIES, LAND, BUILDINGS, PLANT AND EQUIPMENT, DEFERRED DEVELOPMENT AND ADMINISTRATIVE EXPENSES

December 31, 1964

	Mining properties	Land, buildings, Plant and equipment	Deferred development and administrative expenses	Total
24 Patented mining claims in the Township of McGarry and McFadden, Ontario, at cost	2,200.00			2,200.00
2 Mining Licenses comprising 2,242 acres in Parish of Bathurst, County of Glou- cester, New Brunswick, at cost	66,340.15	446,200.57	1,313,558.49	1,826,099.21
32 Mining claims and 3 mining concessions in the Townships of Rohault and La Dauversiere, Chibougamau Area, Quebec, at cost	119,944.80	43,255.05	2,359,560.28	2,522,760.13
Less Written off to date			637,789.31	637,789.31
	119,944.80	43,255.05	1,721,770.97	1,884,970.82
11 Mining claims and 2 mining concessions in Township of Cadillac, Quebec, at cost	15,000.00			15,000.00
16 Mining claims in the Lac Romanet Area, Quebec, at cost	19,870.00		8,203.44	28,073.44
36 Mining claims in the Batchawana River Area, Ontario, at cost	1,800.00		2,250.44	4,050.44
	225,154.95	489,455.62	3,045,783.34	3,760,393.91
Administrative expenses			1,053,632.47	1,053,632.47
	<u>\$225,154.95</u>	<u>\$489,455.62</u>	<u>\$ 4,099,415.81</u>	<u>\$ 4,814,026.38</u>

KEY ANACON MINES LIMITED

STATEMENT OF CONTRIBUTED SURPLUS

Year ended December 31, 1964

Contributed surplus at beginning of year		260,000.00
<i>Add:</i>		
Par value of 4,623,254 shares cancelled during year (note 2)	924,650.80	
Premium received on issue of 2,311,627 shares during year (note 2)	924,650.80	1,849,301.60
		<hr/>
CONTRIBUTED SURPLUS AT END OF YEAR		<u>\$ 2,109,301.60</u>

STATEMENT OF RETAINED EARNINGS

Year ended December 31, 1964

Surplus arising on sale of mining properties and investments, December 31, 1963		2,497,454.96
<i>Deduct:</i>		
Deficit at beginning of year	1,019,893.99	
Write-off of investment in Snowden Yellowknife Mines Limited, charter surrendered	10,000.00	1,029,893.99
		<hr/>
RETAINED EARNINGS AT END OF YEAR		<u>\$ 1,467,560.97</u>

STATEMENT OF DEFERRED DEVELOPMENT AND ADMINISTRATIVE EXPENSES

Year ended December 31, 1964

	Balance at beginning of year	Expenses for year	Balance at end of year
DEVELOPMENT EXPENSES:			
New Brunswick property	1,193,600.89	119,957.60	1,313,558.49
Chibougamau property	1,722,746.63	(975.66)	1,721,770.97
Lac Romanet property, exploration	8,063.44	140.00	8,203.44
Batchawana River property, exploration	545.18	1,705.26	2,250.44
	<hr/>	<hr/>	<hr/>
	2,924,956.14	120,827.20	3,045,783.34
ADMINISTRATIVE EXPENSES	775,787.22	277,845.25	1,053,632.47
	<hr/>	<hr/>	<hr/>
	\$ 3,700,743.36	\$ 398,672.45	<u>\$ 4,099,415.81</u>

KEY ANACON MINES LIMITED

DEVELOPMENT EXPENSES

Year ended December 31, 1964

NEW BRUNSWICK PROPERTY:

Dewatering and mine rehabilitation	22,226.98	
Plant rehabilitation	13,965.78	
Substations, loading and spill pockets	4,943.35	
Ore and waste passes	6,834.86	
Drifting, crosscutting and diamond drilling	22,651.67	
	<u>70,622.64</u>	
Mine office overhead:		
Staff house and residence expense	463.84	
Engineering fees and expense	2,266.79	
Fire protection	3,713.20	
Travel and freight	2,510.15	
Insurance and taxes	5,528.56	
Mine office and warehouse expense	4,460.84	
Equipment rental	(437.50)	
Snow removal and road maintenance	832.93	
Superintendence	5,540.76	
Employee benefits	4,640.74	
Sundry	46.73	29,567.04
Loss on disposal of fixed assets		19,767.92
		<u>\$119,957.60</u>

CHIBOUGAMAU PROPERTY:

Equipment rental income	2,276.24	
Salvage and recovery of prior years' expenses	1,632.14	3,908.38
Deduct expenses:		
Mining licenses and fees	1,528.63	
Mine office expense	137.50	
Taxes	127.09	
Loss on disposals of assets	1,139.50	2,932.72
		<u>\$ 975.66</u>

ADMINISTRATIVE EXPENSES

Year ended December 31, 1964

Interest on loans and bank charges, including debenture interest of \$4,536.98	217,262.39
Transfer agents' and registrars' fees	20,879.90
Administration	7,500.00
Reports to shareholders	2,348.95
Stationery and postage	13,044.34
Filing, listing and sustaining fees	3,265.00
Legal and audit	12,269.50
Directors' attendance fees	1,700.00
Sundry	1,622.82
	<u>279,892.90</u>
Deduct Interest and discounts received	2,047.65
	<u>\$277,845.25</u>

